

Ancillary Service Work Group Issue Paper AS-4

Issue – RTO Ancillary Services Provider of Last Resort: Initial Operation

Background

The RTO's ancillary services procurement processes will rely on the existence of markets for the purchase, sale and exchange of Interconnected Operations Services (IOS) for Regulation, Load Following, and operating reserves. These markets are critical for both: (i) the RTO's day-ahead purchases of such IOS and (ii) self-provision of IOS by the market participants, which will require that they have the ability to acquire IOS on a day-ahead and longer-term basis.

Until the time at which a significant number of the market participants in the RTO region receive approval to sell ancillary services at market rates, various market participants will likely have obligations (which are based on their present obligations) to offer to provide, on a limited basis, IOS at price-capped rates. Therefore, on an interim basis, supplemental mechanisms will be needed to incorporate these price-capped services into the ancillary services marketplace.

Recommendation

It is recommended that the RTO Tariff and TCA require that participants who currently have an obligation to provide ancillary services under their Open Access tariffs, continue those obligations until they receive market pricing authority from the bodies which exercise jurisdiction over such participants. The mechanisms through which those obligations are currently implemented will be modified under the RTO Tariff to be consistent with the procurement processes envisioned by the RTO's ancillary service markets; however, this will be done so as to neither expand nor diminish the participants' obligations beyond what is legally required under their existing tariffs.

This recommendation represents a consensus recommendation of those participating in the last work group meeting, however, Montana who was not represented has indicated that it may not support this approach.

Discussion

The recommended approach will ensure that at the start of RTO operations, the ancillary services markets will be functional and that sufficient quantities of IOS will be available to meet the RTO's control area functions. It will do so without expanding upon any existing obligations to supply A/S at cost based rates. This approach provides for a smooth transition to a fully-competitive market in that the RTO's market will move to a fully market priced based market as suppliers receive that authority but will have the

same structure throughout the transition (long-term, day-ahead and hour-ahead procurement).

Alternative

Another option considered was to delay the start of the RTO's procurement of ancillary service on a day-ahead basis until sufficient market-based supply exists and instead rely on existing cost-based obligations.

This option relies on extending existing cost based obligations as in the other option. However, because the RTO would not implement its Ancillary Services procurement protocols on Day 1, it would later require a step change in RTO operations. It also does not provide for an easy transition to market based pricing. It would in addition require the RTO to create an entirely new set of interim protocols for procuring ancillary services when the RTO is presented with multiple alternatives, and would require that the RTO determine and demonstrate when sufficient market based supply is available to move to the true ancillary services market. Finally, this option may have detrimental affect on the RTO's ability to meet its control area functions, since entities that have market-based rate authority for the sale of energy but not for the sale of ancillary services would have little incentive to supply ancillary services to the RTO and thus likely not bid into that market. (Such shortages are not as possible today since those entities are currently responsible for control area operations; but when such authority is turned over to the RTO, the participants' incentives to provide such ancillary services will be very different.)

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August 18, 2000